It's inefficiency of governance, not austerity, Europe!

Europe is a success model, having unified a split continent. The Euro is well accepted in the world despite of efforts to declare it a failure by US economist from the beginning. But Europe stopped to grow after the Financial Crisis, youth unemployment is high. The usual suspect for Europe's midlife crisis is **austerity**. This is not completely wrong, but it's a different austerity than usually addressed.

The real problems are the **inefficiency of European governance** (leading to overriding past priorities and low innovation), the **neglect of distributional issues** and a **missing vision** of Europe's role in a globalized world.

The share of government expenditures in GDP is close to 50 % at EU average. Nevertheless expenditures for research and top universities are insufficient. Military spending is higher than in Russia and China combined, but Europe can neither technically monitor the border between Russia and Ukraine, nor send food to distressed regions, or stabilize democratic regimes in Africa. The largest part of the EU Budget goes to large agricultural units. Europe heavily taxes employment and private consumption, whereas speculation, emissions, smoking and alcohol are undertaxed. Europe still heavily subsidies fossil energy, has lousy energy nets and allows new nuclear plants to be subsidized if proven unprofitable.

Europe accepts that wages after taxes have declined for 5 years, but ignores that the resulting profits are not invested. Big firms have become net creditors, small ones credit squeezed. Thus private demand is low since consumers have no money to spend, and firms are unwilling to invest. This part of austerity is more important than "austerity" via limited deficits. Southern Europe is urged to undergo structural reforms, but this policy pillar is hijacked by a conservative agenda of reducing wages, specifically low ones. Super normal profits due to monopolies, business regulation, old elites destroy employment and business opportunities too. Europe accept Greek financial assets (probably higher than its debt) to be parked tax free abroad instead of providing information for repatriating it.

The New Strategic Investment Fund goes in the right direction. But it is important to use it not for large projects rejected rightly in the past (highways and airports too close to others, tunnels). Priority should be where the **long run growth effect** and **short run demand effects** are largest. This implies a shift from the paradigm of material investment to the fact that growth in rich countries depends on intangible investments. The fund should be complemented by a **"silver bullet"** allowing spending beyond the limits by the fiscal pact if countries invest in pre-determined mainly intangible categories. This proposal is more restrictive than the conventional "golden rule" which would qualify all investments including highways and military. Exceptions should be limited to 3 years. This is better than the current strategy to postpone targets indefinitely and not dependent on clear criteria.

Europe will overcome its midlife crisis if the public sector is streamlined, reoriented towards the future, if taxes and incentives are used to support employment and growth. And if Europe invests into its own model of a social cohesive and ecological economy instead of mimicking the US or the Asian model; leading and learning from its neighbours and achieving a decisive role in the globalized economy of 2050.

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